



## THE CITY OF SAN DIEGO MANAGER'S REPORT

DATE ISSUED: October 11, 2000 REPORT NO. 00-204

ATTENTION: Honorable Mayor and City Council  
Docket of October 16, 2000

SUBJECT: Formation of Proposed Community Facilities District No. 4 (Black Mountain Ranch Villages).

REFERENCE: None

### SUMMARY

Issue -Should the City Council adopt two resolutions, on behalf of the property owners within proposed Community Facilities District No. 4 ("CFD No. 4"):

- 1) Declaring the City's intention to establish Community Facilities District No. 4 (Black Mountain Ranch Villages), authorizing the levy of special taxes to pay the costs of acquiring or constructing certain facilities and expenses of the District, authorizing payment of debt service on bonded indebtedness, and approving the Purchase and Financing Agreement between the City and property owner; and,
- 2) Declaring the City's intention to incur bonded indebtedness, in an aggregate principal amount not to exceed \$25 million, within Community Facilities District No. 4 (Black Mountain Ranch Villages)?

Manager's Recommendation - Adopt the resolutions.

Other Recommendations - None.

Fiscal Impact - None. In accordance with Council Policy 800-03, "Public Infrastructure Financing Assessment Districts and Community Facilities", all costs related to determining financial feasibility of the proposed CFD, including financial advisory services, legal counsel, special tax consulting, appraisal services, and City staff have been funded by the property owners within the proposed district. If the CFD is established and bonds are issued, all costs related to financing the improvements and all incidental expenses related to forming and administering the CFD will be borne by the district.

## BACKGROUND

The geographic boundaries of the proposed district and the public facilities proposed to be financed are primarily within Subarea I (Black Mountain Ranch) of the North City Future Urbanizing Area. Provision of major public facilities within the subarea is generally governed by the associated Public Facilities Financing Plan (PFFP), as approved by the City Council. These documents provide that public facilities projects that benefit a population larger than the local/adjacent development can be financed by a number of methods, such as Development Impact Fees, Facilities Benefit Assessments, Assessment Districts, and Community Facilities Districts.

The Mello-Roos Community Facilities Act of 1982 (the “Act”) was enacted by the California State Legislature to aid growing areas of the State in the financing of certain essential public facilities which normally accompany major development projects. The Act permits cities to create defined areas within their jurisdiction and, by a two-thirds majority vote within the defined area, impose special taxes on area residents for the purpose of financing needed public improvements. The Act defines the area subject to a special tax as a Community Facilities District (CFD), and the qualified electors to be the registered voters residing within the district. If there are fewer than twelve registered voters within the district, the qualified electors are defined as the owners of the land within the district, with each landowner entitled to one vote per acre, or portion thereof.

Once a CFD is formed, the district is empowered to levy a special tax that may be utilized to directly finance certain public facilities and services, or may be pledged to support debt service on bonds issued to finance needed public facilities. Special taxes are calculated and levied against each assessor’s parcel of land within the district pursuant to the Rate and Method of Apportionment. The special tax is levied on an annual basis, and is collected in the same manner as ordinary ad valorem property taxes.

On April 15, 2000, the developer of the property to be included in the proposed Community Facilities District submitted an application to the City for public financing of certain infrastructure, including the extension and widening of portions of Camino Ruiz and Carmel Valley Road, as well as the infrastructure beneath the roadways. Installation of the backbone infrastructure is a condition of the City’s approval of the land uses in the area, pursuant to the approved tentative map(s) and the Public Facilities Financing Plan for Subarea I.

An application for public financing pursuant to the Mello-Roos Act has previously been made to the City by the developers of certain property located in the City’s North City Future Urbanizing Area as Community Facilities District No. 2 (Santaluz). The City approved the formation of CFD No. 2 in February, 2000. The subject of this report, Black Mountain Ranch Villages, is a closely related development to the previously approved Santaluz project.

## DISCUSSION

Council Policy 800-03 allows the use of assessment or community facilities district proceedings to finance improvements which are a requirement of development permits or agreements, provided that the facilities eligible for CFD financing must be large in scope and the financing mechanism must provide some other extraordinary benefit which otherwise would not be realized through the normal subdivision process. In addition, Council Policy 800-03 provides that Council consideration of a developer request for assessment or community facilities district financing will only be made following completion of an overall feasibility analysis.

In accordance with Council Policy 800-03, the proposed district contemplates financing the acquisition of the following major regional facilities, completion of which is required as a condition of development:

- extension and widening of Camino Ruiz between Carmel Valley Road and Camino Del Norte, along with appurtenant underground utilities;
- extension and widening of the Eastern portion of Carmel Valley Road, along with appurtenant underground utilities; and,
- construction of a sewer pump station and gravity sewer lines.

As part of the preliminary feasibility analysis, and in accordance with Council Policy 800-03, the City commissioned a Feasibility Report, prepared by the independent financial advisory firm of Fieldman, Rolapp & Associates. The Feasibility Report discusses various aspects of the proposed district and financing mechanism, and sets forth certain recommendations related to the City's consideration of approving Community Facilities District financing for the project. Chief among these recommendations are:

- due to limited diversity of ownership within the proposed district, the City require a value to lien ratio of 4:1 instead of the minimum 3:1 requirement imposed by Council Policy 800-03; and,
- the issuance of bonds is not yet feasible, and will require both appraisal and market absorption studies to determine whether the proposed bond issue meets the City's standards, as set forth in Council Policy 800-03; and,
- due to the existence of an overlapping special tax burden of the Poway Unified School District that could create an overall tax burden greater than 2.0% on some classes of property within the district, the City should impose a "maximum allowable rate" restriction on the Developer so that no debt will be issued should the overall special tax required to amortize such debt, when combined with all other taxes, exceed 1.9%; and,

- the City limit the amount of capitalized interest to 18 months, or less; and,
- the maturity of a bond issue not exceed 30 years.

After review and analysis of this report, City staff and the financial advisor are recommending that the City proceed with the formation of the proposed district, provided that the above recommendations, as well as additional recommendations described in the report, are implemented.

Adoption of the two Resolutions before the City Council today will authorize the following actions:

Resolution #1:

Formal action declaring the City's intention to establish Community Facilities District No. 4 (Black Mountain Ranch Villages), authorize the levy of special taxes, establish the boundaries of the district, designate the name of the district, identify the types of facilities to be financed, approve the Rate and Method of Apportionment of special taxes, set the time and place for a public hearing, establish voting procedures, and approve the Purchase and Financing Agreement between the City and property owner to facilitate the City's acquisition of the public facilities to be financed by the district.

Resolution #2:

Formal action declaring the City's intention to incur bonded indebtedness within Community Facilities District No. 4, in a maximum aggregate principal amount of \$25 million, to finance (a) the purchase, construction, modification, expansion, improvement or rehabilitation of certain public facilities, and, (b) the incidental expenses to be incurred in connection with financing the Facilities and forming and administering the District.

ALTERNATIVE

Do not approve the aforementioned resolutions to begin the formal legislative proceedings to initiate the proposed Community Facilities District.

Respectfully submitted,

---

Mary Vattimo  
Deputy Director  
Financing Services

---

Approved: Patricia T. Frazier  
Deputy City Manager

VATTIMO/CW/MSI